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SENSITIVE
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SUBJECT: Guangdong's 'Double Transfer' Policy - A View from the
Receiving End

REF: A. Guangzhou 406; B. Guangzhou 456

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accordingly.

[11.](#) (U) Summary: Guangdong province will spend RMB 50 billion (USD 7 billion) to encourage labor-intensive industries and migrant labor to move out of the Pearl River Delta under its new "double transfer" policy (ref A). Less-developed, third and fourth tier cities in the province like Heyuan are eager to welcome them and reach the benefits of economic development. The municipal government claims that it makes environmental protection a key factor in deciding which factories are allowed to move there. For relocated enterprises, cheaper utilities and rents sweeten the deal, and Heyuan already has some pre-existing industrial parks to which PRD industries can relocate. However, a lack of skilled labor, and concerns about absorbing migrant workers and their families pose challenges to realizing Heyuan's vision of future prosperity.

With Open Arms: Welcoming Labor-intensive Industry

[12.](#) (U) On a "double transfer" promotion tour, Guangdong Party Secretary Wang Yang recently visited Heyuan to encourage local officials to take advantage of the new policy to further economic development efforts. Over the next five years, Guangdong province is planning to invest an estimated RMB 50 billion (USD 7 billion) to develop hi-tech industry in the Pearl River Delta while transferring labor-intensive industry and migrant labor to the more remote parts of Guangdong or other less-developed parts China (Ref A).

[13.](#) (SBU) Heyuan's government has heard Wang's call and openly welcomes the transfer of labor-intensive industries. Heyuan's Vice Mayor Wen Wenfei told us that the policy will help it to achieve its goal of raising the city's per capita income level to the Guangdong average. In 2007, Heyuan's per capita income was RMB 11,974 (USD 1,700), compared to Guangdong's average of RMB 28,000 (USD 4,000). Wen, however, admitted that an even larger incentive was the potential effect it could have on a local official's career advancement. Wen said that promotions were no longer based solely on economic growth, but increasingly on raising living standards, citing job creation as a high priority for Heyuan.

City-to-City Cooperation

[14.](#) (SBU) Wen explained that most financial backing for the 'double-transfer' policy was handled on a city-to-city basis. Heyuan has framework agreements with Shenzhen and Zhongshan, its

main transferring cities, to share the costs of subsidizing relocated enterprises. Shenzhen and Zhongshan have also aided the process by organizing trips for entrepreneurs to assess Heyuan's investment climate.

Gather Together: Heyuan's Industrial Parks

15. (SBU) Thanks to an earlier, mostly unsuccessful effort to attract hi-tech industry, Heyuan is slightly ahead of the curve in constructing industrial parks for transferred factories. One of its largest parks, Zhongshan/Heyuan Transferred Industrial Park was originally built as Heyuan Hi-tech Development Zone. Unable to attract large amounts of hi-tech industries, the park was restructured to include labor-intensive enterprises, such as cell phone manufacturers, metal, and eyewear companies. These new factories have raised Heyuan's annual growth rate by more than 20% over the last five years, according to Vice Mayor Wen. Today, there are seven industrial parks in Heyuan that have been identified as destinations for relocated factories.

Factoring Environmental Impact

16. (SBU) The "double transfer" policy aims not only to relocate labor-intensive industries, but also energy-inefficient industries. When asked about the environmental impact of factory transfers, Wen said that the local Environmental Protection Bureau (EPB) was very much involved in selecting which enterprises are permitted to relocate. All industries must undergo an environmental impact

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assessment. In recent years, the EPB has rejected 200 relocation applications due to potential threats to the local environment. Wen said that prioritizing the environment was a key factor in Heyuan's four established criteria for selecting relocated enterprises:

- Low-to-zero pollution;
- All factories must be located within industrial parks;
- New enterprises must uphold standards of social responsibility;
- and
- New project construction must not waste land resources.

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Trade-offs: Cheaper Costs vs. Less Skilled Labor
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17. (SBU) Heyuan's government offers subsidies on power and water utilities, as well as cheaper rents to attract enterprises. According to Human Resources and Administration Manager Tang Xuezhong of the recently relocated garment company, Tien Sung Group, both utilities and labor costs are considerably cheaper in Heyuan compared to Guangzhou. In Heyuan, electricity is RMB 0.53 per kilowatt-hour, versus RMB 0.85 in Guangzhou. Also, the cost of Heyuan's water is RMB 0.70 per cubic meter compared to Guangzhou's RMB 2.65. Tang's company has three factories in Guangzhou, and opened a fourth last year in one of Heyuan's industrial parks. Tang admitted, however, that rather than closing down an existing factory and relocating it to Heyuan, his company saw Heyuan as an inexpensive opportunity to expand, a common trend among relocating businesses.

18. (SBU) However, factories are facing challenges in recruiting workers, especially skilled labor. According to Vice Mayor Wen, only 51% of the municipality's industrial workforce is from Heyuan, and 30% of workers are from outside Guangdong -- primarily from Jiangxi, Hunan, and Hebei provinces. Many of Heyuan's skilled laborers have migrated to more developed cities with hi-tech industries.

19. (SBU) Government and enterprises alike proactively recruit workers to staff the new factories. The municipal government is trying to attract what Wen called the "redundant farmers," referring to excess laborers in the area's shrinking agricultural sector.

Heyuan provides monetary incentives to township governments to recruit farmers and offers subsidized vocational training in the countryside. In addition, the government sponsors job fairs and subsidizes vocational training provided by companies and local training schools. Tang Xuezhong told us that his garment company's biggest challenge was recruiting skilled workers, and that the company had started a three-week program to train unskilled hires.

¶10. (SBU) Wen told us that with the influx of outside labor, the government was concerned about the potential public security impact and social pressures that migrant workers might bring to the city. According to Wen, for example, accommodating the children of migrant laborers in the few local schools has become a challenge. Wen said that migrant labor was welcome, however, the emphasis would remain on maintaining social stability and raising local living standards.

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